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**Introduction** We have completed our audit of the Boys & Girls Clubs of Silicon Valley (B&GC). We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

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**Background** The B&GC was founded in 1944 and incorporated in 1945 as a non-profit public benefit corporation. The primary mission of the B&GC is to inspire and enable young people, especially those from disadvantaged circumstances, to realize their full potential as productive, responsible and caring citizens. This mission is achieved by providing youth a safe place to learn and grow, ongoing relationships with caring professional adults, life-enhancing programs, character development experiences, hope and opportunity.

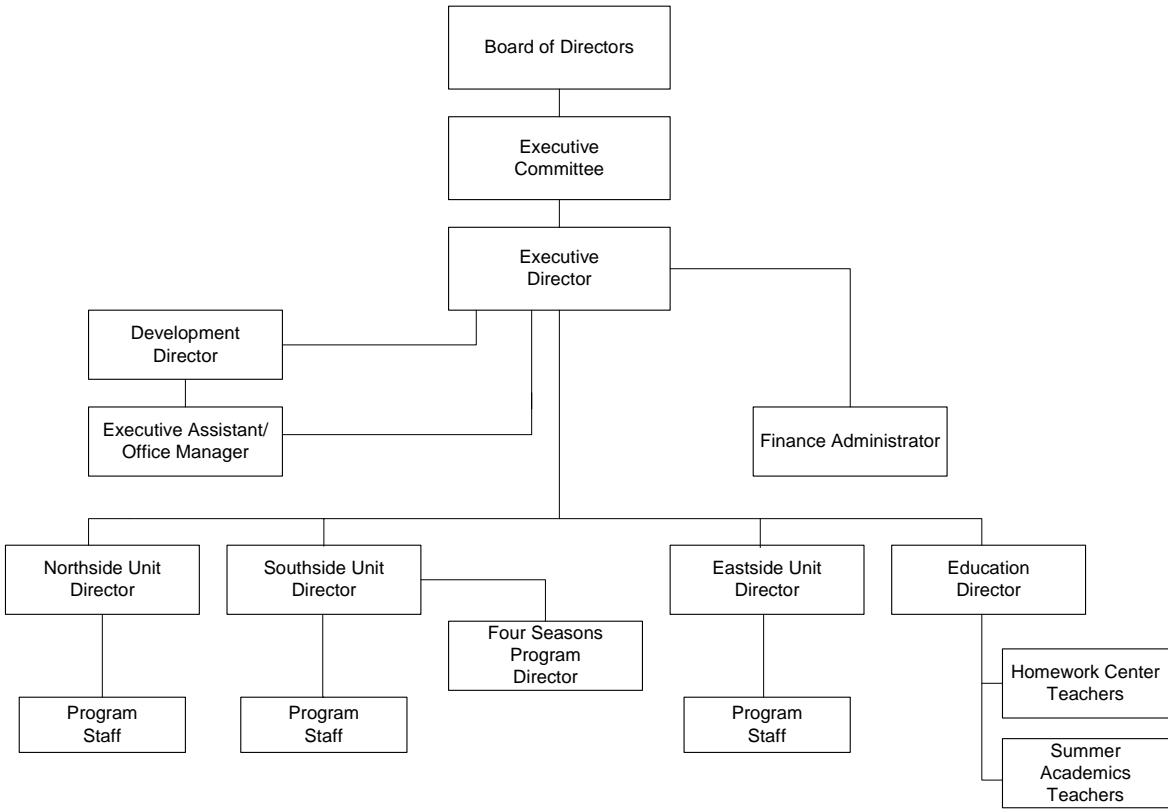
In 2002, the B&GC expects to serve approximately 1,800 members, ages 6 to 18, in its after-school and summer programs at the four clubs it operates in San Jose:

- Northside Club (110 Jackson Street);
- Levin Clubhouse (4995 Edenvue Drive);
- Smythe Clubhouse (2195 Cunningham Avenue); and
- Four Seasons Club (200 Ford Road).

The City of San Jose provides funding to the B&GC through a Community Development Block Grant, San Jose BEST, Safe School/Healthy Students (SSHS) subgrant, and other City grants. The City also provides subsidized facilities at the B&GC Northside Club.

The following shows the B&GC organization chart:

Boys & Girls Clubs Of Silicon Valley  
Organizational Chart



<b>Audit Objective, Scope And Methodology</b>	<p>Our objective in this audit was to review the financial condition and cash handling controls of the B&amp;GC. The scope of our audit was the period from January 2002 through May 2002. We interviewed the B&amp;GC's staff and independent auditors and reviewed supporting documentation for the deposits, disbursements and bank adjustments the B&amp;GC made through its primary bank account.</p>
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During our audit, we:

- Obtained and reviewed the accounting records regarding the B&GC's restricted funds, including audited financial statements;
- Reviewed pending lawsuits and the B&GC's insurance protection against possible adverse rulings;
- Prepared the B&GC's cash flow projections;
- Reviewed the B&GC's bank reconciliation and cash handling controls; and

- Visited the B&GC clubhouses and observed the operations at the clubs.

City Manager and Finance Department staff participated in this audit by providing guidance, reviewing the results of the audit, and assisting us during our visits at the clubhouses.

The B&GC's audit response letter and status report are shown in Appendix A. The specific responses are summarized after each audit finding below.

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**Concerns  
Regarding The  
Financial Condition  
And Cash Handling  
Controls Of The  
Boys And Girls  
Clubs Of Silicon  
Valley**

We reviewed the financial condition and cash handling controls of the B&GC and found that:

- The B&GC used restricted funds for general operating purposes;
- Cash flow projections indicate that the B&GC will require \$233,000 in lines of credit beyond 2002 to continue operating;
- The B&GC's current accounting system is inadequate to account for and report on the administration of B&GC's various contracts and grants;
- Our review of the B&GC's cash handling and bank reconciliation disclosed internal control weaknesses and inadequate or missing documentation;
- Legal actions from an ex-employee and a former consultant are pending against the B&GC; and
- The B&GC does not have County of Santa Clara food safety certification required for food sales at the clubhouses and therefore is not in compliance with the County's Food Safety Program.

We have reviewed our audit findings with the B&GC management. The B&GC has prepared a management plan to address the issues discussed in this audit.

<b>The B&amp;GC Used Restricted Funds For Operating Purposes</b>	We identified and the B&GC confirmed that it used about \$194,000 in restricted funds for operating purposes, as follows:
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Capital project grant from a private donor	\$ 109,000
Learning center remodeling grant from a corporate donor	77,000
City of San Jose grant for a youth center program	8,000
Total restricted funds used for operations	<u>\$ 194,000</u>

We also identified an additional \$81,000 in restricted funds from various sources that the B&GC may have also used for operating purposes. B&GC staff are currently reviewing their records to determine whether the usage of these funds can be justified and documented as authorized and therefore released from restriction.

*The B&GC's Response*

- **The Executive Director has held several meetings with the private donor to discuss potential solutions.**
- **The Learning Center grant is a Packard Foundation grant administered by the Boys & Girls Clubs of America. The funds were correctly spent on the Learning Center project. However, due to an inadequate accounting system, and the previous management's misunderstanding of the grant guidelines, expenditures were not applied to the restricted funds account. Staff is currently reviewing the expenditures and a proper accounting will be made.**
- **The City of San Jose grant was awarded to the organization to fund a youth program at Pioneer High School. When the school year resumed, another location was required to continue the program. We were unable to secure a location, experienced numerous staff changes, and were unable to complete the requirements of the program before it ended.**

- **Of the additional \$81,000 in funds, we have documentation to satisfy the release of the restrictive funds for \$20,000.**
- **An additional \$45,000 will be expended in the next 30 days with completion of two grant projects.**

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**The B&GC Will  
Need Lines Of  
Credit Beyond 2002**

The B&GC has been able to continue operations only by borrowing through its lines of credit with two local banks. Our cash flow projections indicate that by the end of 2002 the B&GC will have drawn about \$233,000 from its lines of credit to continue operations. It is clear that the B&GC will need to use its lines of credit beyond December 2002. However, \$100,000 that the B&GC has already drawn from its Union Bank line of credit is due and payable in January 2003. In addition, the B&GC's \$300,000 Heritage Bank line of credit (\$133,000 of which the B&GC has already withdrawn as of July 31, 2002) will mature in March 2003. The B&GC is confident that both banks will extend the lines of credit.

*The B&GC's  
Response*

**Several steps have been taken to improve the financial situation:**

- **A reduction of staff and operation hours will go into effect on September 2, 2002.**
- **Pursuing new funding sources through grants and corporations.**
- **Implementing a new individual donor strategy in Fall 2002. The major objectives will be to increase the average donation amount, as well as the number of individual donors to the program.**
- **We are reviewing current contract obligations and assessing whether or not we will continue in a partnership where the B&G Clubs will have to subsidize programs.**
- **A Finance Committee has been established by the Board of Directors to take an active role in financial review and management. New procedures are in place to better tracking spending and income.**

**The B&GC's Current Accounting System Is Inadequate To Account For And Report On The Administration Of B&GC's Various Contracts And Grants**

The B&GC’s current accounting system is inadequate to account for and report on the administration of B&GC’s various contracts and grants. Specifically, the current accounting system does not provide budget monitoring and controls. In addition, the B&GC needs to improve its tracking of expenditures of restricted funds to ensure that grant restrictions are satisfied and expenditures of restricted funds are properly documented. The B&GC also needs to implement timekeeping controls and procedures to properly allocate staff hours.

*The B&GC's Response*

- **Staff has begun transferring the accounting system to QuickBooks and expects completion by September 1. Expenditures and income will be tracked and monitored by program, contract or grant.**
- **The Unit Directors have been advised of new criteria for handling allocation of hours and charges for materials and supplies.**
- **A reporting form has been distributed to make it easier for personnel to track hours, expenditures and program participants.**

**The B&GC's Cash Handling And Bank Reconciliation Weaknesses**

Our review of the B&GC's cash handling and accounting procedures disclosed internal control weaknesses and inadequate or missing documentation. (See Appendix B for a detailed discussion of these issues.)

*The B&GC's Response*

**New procedures have been implemented for petty cash, bank reconciliation, personnel and payroll:**

- **A new procedure has been established for petty cash management. One staff member will have custody of the funds and disbursement. Another staff member will reconcile the account. Funds will only be disbursed when the proper paperwork is completed showing account charged, amount, and with approved signature.**

- Duties of the staff are now segregated so that one person opens and logs checks from the mail or incoming cash receipts. Another staff person records the payments in a cash receipts journal. Reconciliation is done when the bank deposit is made.
- To strengthen internal controls, blank checks are locked in the safe. The Executive Director reviews and provides written approval for all invoices and supporting documentation.
- The Executive Director receives the monthly bank statement and reviews it monthly, including all EFT transactions. After reconciliation by the finance staff, the Executive Director approves the reconciliation.
- All staff are required to sign payroll timesheets, which are then signed and approved by his or her supervisor.
- All personnel files are in process of being reviewed and updated with the proper salary authorization, hiring documentation and vacation/sick records.
- Vacation/sick forms have been implemented and require signature of employee supervisor.
- All Unit Directors (at the four club sites) provide a written record of the number of members and a roster of members with the membership receipts.

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## **Pending Lawsuits**

An ex-employee and a consultant have filed separate legal actions against the B&GC:

- A former Development Director is suing the B&GC for general damages; and
- A former consultant sued the B&GC in Small Claims Court for alleged unpaid services regarding consulting contracts in 2001. (This Small Claims suit was settled in August 2002.)

It should be noted that the B&GC has Directors & Officers Liability insurance coverage.



<i>The B&amp;GC's Response</i>	<ul style="list-style-type: none"><li>• <b>The insurance company for the B&amp;G Clubs of Silicon Valley has hired an attorney, Lynne Bentley, with Borton, Petrini &amp; Conron, LLP, to represent us in the lawsuit brought by the former development director.</b></li><li>• <b>The Small Claims court action involving consulting contracts has been resolved. The first payment was made August 5, 2002. The final payment will be made on September 26, 2002.</b></li></ul>
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<b>The B&amp;GC Does Not Have Required County Food Safety Certification</b>	During our inspection of the B&GC's Eastside unit, we noted that the B&GC sells prepared food and snacks to its members. The B&GC does not have required County of Santa Clara food safety certification and therefore is not in compliance with the County's Food Safety Program.
<i>The B&amp;GC's Response</i>	<ul style="list-style-type: none"><li>• <b>The County has been contacted to inspect the kitchen and advise on compliance.</b></li></ul>

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<b>CONCLUSION</b>	<p>We reviewed the financial condition and cash handling controls of the B&amp;GC and found that:</p> <ul style="list-style-type: none"><li>• The B&amp;GC used restricted funds for general operating purposes;</li><li>• Cash flow projections indicate that the B&amp;GC will require \$233,000 in lines of credit beyond 2002 to continue operating;</li><li>• The B&amp;GC's current accounting system is inadequate to account for and report on the administration of B&amp;GC's various contracts and grants;</li><li>• Our review of the B&amp;GC's cash handling and bank reconciliation disclosed extensive internal control weaknesses and inadequate or missing documentation;</li><li>• Legal actions from an ex-employee and a former consultant are pending against the B&amp;GC; and</li><li>• The B&amp;GC does not have County of Santa Clara food safety certification required for food sales at the clubhouses and therefore is not in compliance with the County's Food Safety Program.</li></ul>
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The B&GC has started to implement a management plan to correct the operational weaknesses discussed in this audit.